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UNCLAS SECTION 01 OF 03 HO CHI MINH CITY 000556

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SENSITIVE

STATE FOR EAP/BCLTV AND EB/TPP/ABT/BTT BOYNTON
STATE ALSO PASS TO USTR BRYAN/SPOONER/MILLER/CLATANOFF
USDOC FOR 6500AND 4430/MAC/AP/OPB/VLC/HPPHO
USDOC ALSO PASS OTEXA LEONARD/FOOTE/MARTELLO
CUSTOMS FOR RICHARD CRICHTON
LABOR FOR ANA VALDES

1E. O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [KTEX](#) [VM](#)

SUBJECT: VIETNAM: TEXTILE ALLOCATION BEGINS WITH CONFUSION

REF: A) HO CHI MINH CITY 0500 B) HANOI 1467

Summary

1. (SBU) The textile quota allocation process, which began on June 11, has drawn widespread complaints from buyers and producers and has already gone through at least one revision. In Phase I of the allocation process - in which companies receive a share of quota based on past performance - many companies received much less quota than they expected, when compared with their calculations based on their interpretation of the criteria earlier publicized by the GVN. In a meeting with a group of foreign industry representatives, officials from VITAS, the Vietnam Textile Apparel and Textile Association, acknowledged that the Ministry of Trade (MOT) had been holding back or under-allocating quota based on past performance. At the meeting, industry reps stated they were prepared to bring their concerns to the U.S. Ambassador and to the Minister of Trade. According to the foreign industry reps, MOT officials then agreed to once again update performance-based quota, this time using the criteria as originally stipulated in the government circular. (Post Note: MOT has told Embassy Hanoi that they already apply these criteria). Transparency is - apparently - a work in progress. Post will continue to monitor the business pulse in HCMC. End Summary.

Better Late and Incomplete -- Than Never

2. (SBU) On June 11, the GVN issued the first textile quota allocations in "Phase I" of the quota allocation process. According to foreign buyers and producers, as well as the Vietnam Textile and Apparel Association (VITAS), the lists were late and incomplete. MOT released an updated list over the weekend, but companies still complained to ConGen Econoff that the quota allocations were incomplete. In this Phase I allocation, which was to distribute 80 percent of the performance-based quota to companies who had submitted timely documentation, several companies told ConGen Econoff that they had received far less than their preliminary calculations would have indicated. Some companies, many of whom documented substantial past performance in the qualifying period, did not even appear on the list or were missing quota allocations in key categories. Companies have once again begun making the pilgrimage to the Ministry of Trade in Hanoi to plead their cases. Many of these firms say they have been assured by MOT officials that their quotas will be adjusted or that, because "the list is not finished," their firms will be added to the list. Once again, textile firms are on pins and needles (sorry) as they try to sort out exactly what is going on and how to get a piece of the action.

Apparently Transparent -- at First

3. (U) In the past few months, GVN officials have stressed repeatedly the goal of making the quota allocation process as fair and as transparent as possible. Various ministries accepted input from buyers and producers as they developed the quota allocation system. The Ministries of Trade, Industry, and Planning and Investment jointly issued a circular, which formally laid out the criteria for allocation (ref A). MOT posted this decree along with other relevant regulations on the MOT website. Export figures by category were also posted and updated every few days so that companies could see how much quota remained in each category.

4. (SBU) All of this transparency quickly became obscured, however, when the first quota allocations were announced on June 11. This was several days after the "end of May" deadline specified in the aforementioned circular. Many companies who had complied with documentation requirements for quota allocation did not receive any quota at all. Some companies received substantially less than the amounts they had anticipated. In one case, for example, an American firm received 93 percent of what it expected in one category, but only about 40 percent in another. The general manager of one Hong Kong firm complained to ConGen Econoff that he had not slept for days because his firm was not even on the list. His firm later appeared on the updated list, but received far less quota than anticipated and no quota at all in several key categories. The export figures by category have not been updated since June 6 on the MOT website, adding to

business anxiety in HCMC.

15. (SBU) Producers and buyers are reluctant to ascribe any of this confusion to an attempt by GVN officials to unfairly allocate quota to preferred firms. Producers note that no group in particular appears to have benefited from this initial allocation, although unless one knows the past performance of each individual company, one cannot be absolutely certain. GVN officials have told Embassy Hanoi officers that they have been overwhelmed by this entire exercise and at the same time are trying to comply with requests to provide detailed export data to U.S. Customs (ref B).

We feel your pain...

16. (U) Interest in the U.S. textile and garment market is enormous in Ho Chi Minh City, which is the center of the country's textile and apparel industry. With less than one week's notice, an American Chamber of Commerce seminar on U.S. Customs documentation requirements for textile imports drew more than 250 participants. At the meeting, the Secretary General of VITAS Mr. Tran Duc Thinh acknowledged the frustrations of the entire industry as the quota allocation process had begun. He urged companies to register their complaints and promised that VITAS would call a meeting in a few days to review the situation with its members. He stated that the MOT was working hard to get things right, but this was the first time MOT had to allocate textile quota for the U.S. market. (Note: For several years the GVN has been allocating a much smaller textile quota for the EU market.)

You bet you will!

17. (SBU) According to one major American buyer in Ho Chi Minh City, however, the ground may be shifting. On June 16, this buyer, along with representatives of several foreign business groups in Ho Chi Minh City, met with Mr. Le Quoc An, the Chairman of Vinatex and of VITAS, and Mr. Le Van Dao, the incoming Secretary General of VITAS and former Deputy Director of the MOT

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Import-Export Department. Foreign business groups have been lobbying the GVN collectively on textile and quota allocation issues. These businesses produce or purchase hundreds of millions of dollars of garments here every year. According to the American buyer, An and Dao told her that the MOT had been using a "different formula", not one based closely on the criteria in the GVN circular outlining the process. According to An and Dao, using the current "formula" resulted in smaller quotas, by about 10% - 30%. This allowed the MOT to withhold more quota for later allocation.

18. (SBU) These foreign business representatives were highly critical of this reported approach and informed An and Dao that they were meeting separately later this week with U.S. Ambassador Burghardt and with the Minister of Trade. They wanted to give them a good report, they said, but as the situation stood now, this would not be possible. According to the leader of this textile group, An and Dao reacted by telephoning the new Deputy Director of Import-Export at MOT (the key person in charge of handling quota allocation for the U.S. market.) According to the business reps, An and Dao urged him in the strongest terms ("fix this or your job in jeopardy") to release new quota figures based on the "correct formula." According to ConGen contact, An and Dao told the foreign reps that yet another "revised" quota allocation list should be released in a couple of days, this time using the criteria "as set out" in the GVN circular.

Comment

19. (SBU) ConGen contact has been a good source of inside information in the past. However, neither An or Dao directly work or speak for MOT, and every source in this cable has a horse in this race. Embassy contacted MOT officials who were in charge of drafting the circular, creating and applying the criteria, and allocating quota. They stated they were unaware of any conversation as reported by the American industry rep, and noted that there is no specific formula advocated in the circular. Rather, these officials said they set up a formula based on their own criteria and, as previously reported, scheduled the allocation in two phases. The first phase was smaller than originally announced and this has led to problems and unease among industry reps. The second phase, which will now be larger than planned, will happen later this month. Depending which side of the fence one sits on, this may also be the "revised" allocation that industry reps are waiting for.

10. (SBU) That said, there is clearly unhappiness among the foreign business community regarding the allocation of quota. For them, these recent quota allocations appear to concentrate power for quota decisions in just a few hands. Without any MOT explanatory formula or calculations for allocating past performance quota, the foreign business community has serious concerns about the apparent disconnect between their expected quota allocations (based on their own calculations) and what in fact MOT has allocated to them. If MOT can improve its

performance by responding to industry's concerns - ensuring that the second phase more closely follows industry's recommendations regarding the application of criteria and "formula" - it would be excellent news for Vietnam. Garment and textile producers would get the performance-based quota they were promised, thus strengthening the competitiveness of the industry here. And, it would be another step on the road to transparency. Because the GVN had issued a circular outlining quota criteria, buyers and producers were able to lobby the MOT directly for its proper implementation. Of course, whether or not MOT will tweak its method of allocation in Phase II, as well as increase transparency, remains to be seen.

YAMAUCHI